Conclusions and outlook

> *A European minimum wage would bring millions of low-wage workers in the EU significant pay increases and significant improvement in their life situation."*

The outbreak of the Covid-19 pandemic changed the framework conditions for wages and collective bargaining. Decreasing nominal and real wages have led to a demand shock. Increasing unemployment makes it more difficult for trade unions to negotiate wage increases and, furthermore, changes the bargaining agenda by putting the safeguarding of employment centre stage of bargaining rounds. Whereas the 2008/2009 crisis hit the manufacturing sector particularly hard, the impact of the Covid-19 crisis is much broader and also severely affects the service sector. The hotel and restaurant sector as well as retail have been particularly affected by the lockdowns and the subsequent regulations put in place to contain the spread of the pandemic.

As regards the management of the crisis, it is important not to repeat the mistakes of 2008/2009, when austerity, internal devaluation and the freezing or even cutting of minimum wages unduly prolonged the crisis with sometimes dramatic social consequences. It seems that this time European and national policymakers are pursuing a different approach, which aims to mitigate the negative effects of the demand shock by supporting employees' wages through, for instance, short-time working schemes. In the long run, however, this will not be enough. Only fair minimum wages and strong collective bargaining structures can stabilise employees' income as part of a demand-led and socially acceptable recovery strategy. Against this background, the European Commission's proposal for a Directive on adequate minimum wages in Europe can play a key role – but only if it does not act as a straitjacket stifling the development of fair minimum wages, but instead functions as a ladder which supports the gradual increase of minimum wages in Europe to a level sufficient for employees to make ends meet from what they earn. In this sense, the proposed Directive can support the shift from a 'low road' economic model based on exploitatively low wages and social dumping towards a 'high road' model based on quality, innovation and fair wages. This is, however, only possible if the following amendments are included in the proposed Directive to ensure that it goes beyond mere political symbolism and really ensures short-term improvements for minimum wage workers.

'Double decency' threshold

Since wage-setting is a national competence, the EU does not have the power under its Treaties to set an absolute EU-wide minimum wage level; however, it can legally oblige Member States to ensure decent pay. To ensure fair minimum wages, the proposed Directive should, therefore, include in the legislative provisions a double decency threshold of 60% of the median wage and 50% of the national average wage. This double decency threshold would not set a specific wage but would instead define a minimum threshold under which no national minimum wage should be set. In order to ensure that the double decency threshold is not undermined and eroded, the proposed Directive should also end the possibility to exclude certain categories of workers from minimum wage protection. It should furthermore prevent the practice of deductions for other costs, such as uniforms or breakages. And, finally, the calculation of minimum wages should not include bonuses and tips which should be paid on top. According to the Commission's own calculation, a European minimum wage target according to which all national minimum wages would increase to at least 60% of the national median wage and 50% of the national average wage would bring around 25 million low-wage workers in the EU substantial pay increases and a significant improvement in their life situation (European Commission 2020d: 54)).

Support for (cross-)sectoral bargaining

In many countries, the relatively high minimum wage level is more an expression of low wages overall than of high absolute minimum wage levels. Thus, the proposed Directive's obligation on Member States to promote collective bargaining by establishing an action plan if bargaining coverage is below 70% can help to ensure that minimum wages that meet the double decency threshold really are fair minimum wages that ensure a decent living standard. To ensure that the action plans really fulfil their purpose of gradually increasing collective bargaining coverage to at least 70%, the proposed Directive should, however, specify supportive measures to be taken into account by Member States when establishing their action plans. These measures should at least include the following: guaranteeing that all categories of workers (including non-standard workers) in both the private and public sector enjoy the right to bargain collectively; providing for or strengthening extension mechanisms for (cross-) sectoral collective agreements; preventing acts of anti-union victimisation, such as employers' reprisal against workers who organise for fair wages or exercise their right to unionisation; and ensuring that public procurement procedures support the respect of the right to bargain collectively. In addition to ensuring that the content of the action plans serves to achieve the objective of 70% collective bargaining coverage, the proposed Directive should also provide the action plans with 'procedural teeth'. One could, for instance, imagine that in the case of repeated failure of an action plan to bring about progress towards 70% coverage, the Commission would open infringement procedures in accordance with the Treaty of the Functioning of the European Union.

Protection of national bargaining systems

The Commission has made an effort to protect national systems in which minimum wages are set by collective agreements. This includes, in particular, the guarantee that no Member State can be forced to introduce a statutory minimum wage. However, in order to protect well-functioning bargaining systems such that the freedom of collective bargaining cannot be undermined by court rulings, the proposed Directive should include a 'social progress' clause. Such a clause would prevent court rulings that effectively prioritise economic freedoms over social rights. This was the stark logic of the 2007 Laval case, in which the European Court of Justice ruled in favour of the freedoms of movement and establishment to restrict the right of Swedish trade unions to take industrial action. Incorporating a social progress clause would guarantee trade union prerogatives and protect collective bargaining and the autonomy of the two sides of industry against damaging court rulings.

Fair minimum wages that are good for the economy

At the heart of the matter is the recognition that fair minimum wages and collective bargaining are good for the economy. At the outbreak of the pandemic, opponents of the Commission's minimum wage initiative often argued that the introduction of fair minimum wages at a level of 60% of the median and 50% of the average wage would be too expensive, lead to negative employment effects, and harm international competitiveness.

Research on the employment and economic effects of minimum wage increases has shown no significant adverse effects because companies coped with the increases in labour costs in many different ways. These include: first, increasing the price of the goods and services offered; second, compressing the wage structure, which means that the increase of wages for low-wage earners at the bottom of the wage structure was (partly) absorbed by suspending or postponing wage increases and the payment of bonuses to workers higher up the pay scale (Hirsch et al., 2011); third, reducing the profit margin (Draca et al. 2011); and fourth, increasing productivity, which was mainly done by a reduction in labour turnover and more investment in training to upgrade the skills level of the workforce. A reduction in staff turnover helps companies to save costs for the recruitment, selection and induction of new workers, and it also helps to simplify management processes (Dube et al. 2007, 2010).

Nor would the implementation of fair minimum wages harm competitiveness and economic growth. The opposite is actually the case. Since including the double decency threshold in the main body of the legal provisions would ensure the compulsory implementation of fair minimum wages in a coordinated manner across the whole of the EU in relation to national wages at 60% of the median wage and 50% of the average wage, it would create a level playing field without adverse effects for the relative concept of international competitiveness. Furthermore, most of the employees affected by the introduction of fair minimum wages work in service sectors such as hairdressing, cleaning, retail, hospitality, and the health and care sector that are not exposed to international competition and whose services are performed within local markets.

Since the EU economy is demand- and wage-led, fair minimum wages would boost internal demand because of the low-wage workers' greater propensity to spend additional income. Minimum wages would boost internal demand, and thus economic growth, not only by directly increasing the wages of millions of low-wage workers: through so-called 'ripple effects' (Grimshaw and Rubery 2013), fair minimum wages would also influence general wage developments, reinforcing their positive impact on internal demand and economic growth.

Finally, the current crisis highlighted the importance of fair minimum wages for social and political stability in Europe. Due to the far-reaching social impact of the crisis, especially in the countries of southern Europe most affected by the crisis, the feeling of being let down by other EU Member States and the European institutions is increasing. Against this background, it is essential to improve the social situation of many people in Europe with an amended European Directive on adequate minimum wages. From a social, political and also economic point of view, the timely implementation of such a Directive would be an important component of a comprehensive Covid-19 recovery strategy.